USDA's Agricultural Baseline: The Assumptions

USDA's 10-year baseline projections cover agricultural commodities, agricultural trade, and aggregate indicators such as farm income and food prices. The projections in the current report, *Agricultural Baseline Projections to 2005, Reflecting the 1996 Farm Act,* were completed in December 1996 and reflect a composite of model results and judgmental analysis of the agricultural sector through the year 2005. The projections reflect major agricultural policy decisions made through mid-November 1996 and include short-term projections from the November 1996 *World Agricultural Supply and Demand Estimates.*

The baseline projections incorporate provisions of the 1996 Farm Act and assume the new law is extended through the end of the baseline in 2005. These projections provide a starting point for discussion of alternative farm policies. The categories of critical long-term assumptions in the baseline include: U.S. and international macroeconomic conditions; U.S. agricultural and trade policies; funding for U.S. agricultural export programs; foreign economic, agricultural, and trade policies; growth rates of U.S. and foreign agricultural productivity; and normal (average) weather.

Changes in any of these assumptions can significantly alter the projections, and actual conditions that emerge will alter the outcomes. Among the more critical assumptions are those involving agricultural policy and macroeconomic conditions.

The Conservation Reserve Program (CRP), reauthorized in the 1996 Farm Act, sets maximum CRP area at 36.4 million acres. The new law permits the Secretary of Agriculture to re-enroll current land at contract expiration and to enroll new land to replace acreage leaving the CRP through expired contracts or early termination.

Over 20 million acres of CRP contracts expire in 1997. Enrollments in 1997 are assumed to keep the CRP from falling below 30 million acres. Enrollments in subsequent years are assumed to gradually increase the CRP to over 36 million acres by 2001.

The baseline assumes full compliance with all bilateral and multilateral agreements affecting agriculture and agricultural trade. Projections assume full compliance with the internal support, market access, and export subsidy provisions of the Uruguay Round GATT Agreement. The baseline assumes no accession to the World Trade Organization by the Newly Independent States (NIS) of the former Soviet Union, the Baltics, China, or Taiwan; no enlargement of the European Union (EU) beyond its current 15 members; and no expansion of the North American Free Trade Agreement.

Agricultural and trade policies in individual foreign countries are assumed to continue to evolve along their current paths.

The baseline assumes that no new bilateral or multilateral agreements occur during the 1997-2005 period. Although a number of such agreements could emerge, given the World Trade Organization (WTO) mini-round scheduled for 1999 and potential agreements on WTO accession and EU-15 enlargement, the provisions and timing of potential agreements are uncertain.

Annual quantity and expenditure levels for the Export Enhancement Program (EEP) are assumed to be in compliance with GATT reductions, which require that by 2000, subsidized exports be reduced by 21 percent in volume and by 36 percent in budget outlays from 1986-90 levels. Howver, the 1996 Farm Act reduced total EEP funding during fiscal years 1996-99 from the maximum levels permitted under the GATT agreement. The 1997 Agriculture Appropriations Act further lowered the fiscal 1997 EEP level.

The 1996 Farm Act authorizes P.L. 480-Title I agreements with private entities in addition to foreign governments and broadens the range of commodities available for P.L. 480 programs. Total P.L. 480 program levels are assumed constant in the baseline for fiscal 1998 and later years. Program levels for other trade promotion and credit programs, including the Market Access Program and the GSM-102 and GSM-103 credit guarantee programs, are assumed constant in the baseline.

Domestic macroeconomic assumptions include deficit reduction that balances the Federal budget by 2002. This results in lower interest rates, higher productivity, and stronger growth in Gross Domestic Product. Baseline global economic growth averages about 3 percent annually over the next decade, well above growth during the first half of the 1990's. Macroeconomic growth in developed countries averages about 2.5 percent through 2005 as these economies rebound from growth slowdowns in the mid-1990's.

Market reforms lead to projected economic growth for the NIS and Baltics, and for the countries in Central and Eastern Europe, following years of economic decline during the transition from centrally planned economies. Aggregate growth for developing countries over the next 10 years is projected to average about 5.5 percent, somewhat faster than over the past decade.

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